

***Indiana Community Business
Credit Corporation***

Financial Statements

Years Ended December 31, 2004 and 2003



Indiana Community Business Credit Corporation

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Certified Public Accountants
and Business Consultants

Independent Auditors' Report

Board of Directors and Shareholders
Indiana Community Business Credit Corporation
Indianapolis, Indiana

We have audited the accompanying balance sheet of **Indiana Community Business Credit Corporation** as of December 31, 2004, and the related statements of income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Indiana Community Business Credit Corporation** as of December 31, 2003, were audited by other auditors whose report dated January 26, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Indiana Community Business Credit Corporation** as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BGBC Partners, PC

February 11, 2005

Indiana Community Business Credit Corporation

Balance Sheets

December 31, 2004 and 2003

Assets

	2004	2003
Cash and cash equivalents	\$ -	\$ 15,127
Commercial loans	8,639,044	8,832,402
Less allowance for loan losses	(799,234)	(526,023)
Loans, net (Note 2)	7,839,810	8,306,379
Accrued interest receivable	54,108	50,961
Loan fees, net	30,569	26,793
Deferred income taxes (Note 3)	295,850	188,610
Income taxes receivable (Note 3)	-	94,237
	\$ 8,220,337	\$ 8,682,107

Liabilities and Shareholders' Equity

Liabilities:

Notes payable (Note 4)	\$ 5,005,524	\$ 5,625,524
Accrued interest payable	60,248	58,883
Accounts payable and other liabilities	143,946	105,366
Deferred transaction fees	47,847	50,861
Income taxes payable (Note 3)	24,100	-
Customer deposits	-	25,000
	5,281,665	5,865,634

Shareholders' equity:

Common stock, no par value; 2,000 shares authorized	1,301,584	1,254,404
Retained earnings	1,638,138	1,563,119
Treasury stock, 3 shares at cost	(1,050)	(1,050)
	2,938,672	2,816,473
	\$ 8,220,337	\$ 8,682,107

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Statements of Income

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Interest income:		
Interest income on loans	\$ 719,301	\$ 828,768
Variable transaction fees	<u>630,628</u>	<u>526,836</u>
	1,349,929	1,355,604
Interest expense	<u>248,407</u>	<u>262,026</u>
Net interest income	1,101,522	1,093,578
Provision for loan losses (Note 2)	<u>622,032</u>	<u>684,756</u>
Net interest income after provision for loan losses	479,490	408,822
Non-interest expenses:		
Management contract fees	310,872	287,883
Professional fees	<u>31,390</u>	<u>16,288</u>
Total non-interest expense	342,262	304,171
Income before income taxes	137,228	104,651
Income tax expense (Note 3)	<u>62,209</u>	<u>38,389</u>
Net income	\$ 75,019	\$ 66,262

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Statements of Shareholders' Equity

Years Ended December 31, 2004 and 2003

	Common Stock		Retained	Treasury	
	Shares	Amount	Earnings	Stock	Total
Balance , January 1, 2003	597	\$ 1,254,404	\$ 1,496,857	\$ (1,050)	\$ 2,750,211
Net income			66,262	-	66,262
Balance , December 31, 2003	597	1,254,404	1,563,119	(1,050)	2,816,473
Sale of common stock	10	47,180	-	-	47,180
Net income			75,019	-	75,019
Balance , December 31, 2004	607	\$ 1,301,584	\$ 1,638,138	\$ (1,050)	\$ 2,938,672

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Statements of Cash Flows

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ 75,019	\$ 66,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(107,240)	84,850
Provision for loan losses	622,032	684,756
Changes in assets and liabilities:		
Accrued interest receivable	(3,147)	77,443
Income taxes receivable (payable)	118,337	(45,353)
Loan fees	(3,776)	4,480
Customer deposits	(25,000)	-
Deferred transaction income	(3,014)	(9,510)
Accrued interest payable	1,365	(12,542)
Accounts payable and other liabilities	<u>38,580</u>	<u>31,018</u>
Net cash provided by operating activities	<u>713,156</u>	<u>881,404</u>
Cash flows from investing activities:		
Loans made to customers	(4,014,482)	(2,096,428)
Principal collected on loans	<u>3,859,019</u>	<u>1,928,221</u>
Net cash used in investing activities	<u>(155,463)</u>	<u>(168,207)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	780,000
Principal payments on notes payable	(620,000)	(1,500,000)
Proceeds from sale of stock	<u>47,180</u>	<u>-</u>
Net cash used in financing activities	<u>(572,820)</u>	<u>(720,000)</u>
Net decrease in cash	(15,127)	(6,803)
Cash, beginning of year	<u>15,127</u>	<u>21,930</u>
Cash, end of year	<u>\$ -</u>	<u>\$ 15,127</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 247,042</u>	<u>\$ 274,568</u>
Cash paid (received) during the year for taxes	<u>\$ 51,112</u>	<u>\$ (1,108)</u>

See accompanying notes to financial statements.

Indiana Community Business Credit Corporation

Notes to Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Indiana Community Business Credit Corporation ("Company") is owned by Indiana banks ("Member Banks") and provides secondary and supplemental financing to small and medium-sized Indiana companies. All loans require participation by a Member Bank in an amount at least as great as the Company's participation. The Company typically takes a collateral position which is secondary to the Member Bank's position. All of the Company's notes payable, accrued interest payable, and interest expense are to Member Banks. Details are presented in Note 4.

The Company has a contract with Cambridge Capital Management Corp. ("CCMC") to provide staffing services for the period January 1, 2001 through December 31, 2005. The staffing services include consulting, loan packaging and servicing, office administration, and general and administrative expenses.

Interest Income

Interest income from loans is recognized when earned unless collection is doubtful. Interest does not accrue on doubtful accounts.

The Company can receive additional income from its borrowers to supplement interest income on loans receivable through provisions in loan agreements for variable transaction fees. The amount of these fees is determined by the timing of payment and the financial success of the borrower.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported therein and the disclosures provided. These estimates and assumptions may change in the future, and future results could differ. The estimate that is most susceptible to change in the near term is the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses represents an amount that management estimates is adequate to provide for probable incurred losses in its loan portfolio. The ultimate outcome of this estimate is not known. Due to this uncertainty, it is at least reasonably possible that actual losses will be significantly different. Increases in the allowance are recorded as a provision for loan losses charged to expense. In arriving at a judgment about the adequacy of the allowance, management considers the risk associated with the loans in its portfolio and the historical loan loss trends of similar business development companies. While management may periodically allocate portions of the allowance for specific problem loan situations, the whole allowance is available for any loan charge-offs that occur. A loan is charged off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

Loans are considered impaired if full principal or interest payments are not anticipated. Impaired loans are carried at the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral-dependent. A portion of the allowance for the loan losses is allocated to impaired loans.

Indiana Community Business Credit Corporation

Notes to Financial Statements

Loan Fees

Loan fees net of direct origination costs are deferred and amortized on a straight-line basis over the life of the loan as a part of interest income.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standard No. 109 ("SFAS 109"). SFAS 109 provides for current and deferred tax liabilities and assets using an asset and liability approach. (See Note 3.)

Deferred income taxes arise from temporary differences between income tax and financial reporting and principally relate to the recognition of loan reserves and deferred loan costs and income.

Cash and Cash Equivalents

The statement of cash flows has been prepared using a definition of cash and cash equivalents that includes deposits with original maturity of three months or less.

Reclassification

Certain reclassifications have been made to 2003 amounts to conform to the 2004 presentation. These reclassifications have no effect on the total net income for 2003.

2. Commercial Loans and Allowance for Loan Losses

The allowance for loan losses consists of the following activity:

	<u>2004</u>	<u>2003</u>
Balance , January 1	\$ 526,023	\$ 755,098
Provision for loan losses	622,032	684,756
Charge-offs	(351,789)	(921,075)
Recoveries	2,968	7,244
Balance , December 31	<u>\$ 799,234</u>	<u>\$ 526,023</u>

At December 31, 2004 and 2003, the balance of impaired loans totaled \$1,346,989 and \$1,136,621, respectively. Interest income recognized from impaired loans during 2004 and 2003 was \$52,000 and \$0, respectively. Of the total allowance for loan losses, \$538,796 and \$300,000 have been allocated to impaired loans at December 31, 2004 and 2003, respectively. The average balance of impaired loans during 2004 and 2003 was \$1,241,805 and \$1,082,000, respectively.

Indiana Community Business Credit Corporation

Notes to Financial Statements

In January 2004, the Company, along with certain related-party entities, purchased certain loans of Mastercraft Memorial, LLC ("Mastercraft") at a discount from a third party. The total purchase price of such loans was \$1,400,000, and the Company's share of this note is \$500,000 and is recorded in commercial loans at December 31, 2004. Although the loans were purchased at a discount, the original terms of the purchased loans are still in effect. The loans are collateralized by substantially all the assets of Mastercraft and are personally guaranteed by the sole owner. The Company and related-party entities' interest is senior to all other creditors of Mastercraft. Mastercraft is currently making weekly payments to the Company and certain related-party entities.

At December 31, 2004 and 2003, the Company had unfunded commitments to originate loans of \$275,000 and \$1,410,000, respectively.

3. Income Taxes

Income tax expense (benefit) consists of the following:

	<u>2004</u>	<u>2003</u>
Federal:		
Current	\$ 133,452	\$ (36,772)
Deferred	<u>(91,260)</u>	<u>65,760</u>
	<u>42,192</u>	<u>28,988</u>
State:		
Current	35,997	(9,689)
Deferred	<u>(15,980)</u>	<u>19,090</u>
	<u>20,017</u>	<u>9,401</u>
	<u>\$ 62,209</u>	<u>\$ 38,389</u>

Differences in the income tax expense for 2004 and 2003 from the federal statutory rate are primarily attributable to federal graduated tax rates and state income taxes. The components of deferred income tax assets consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Allowance for loan losses	\$ 308,590	\$ 198,732
Loan fees, net	<u>(12,747)</u>	<u>(10,122)</u>
Total deferred income tax assets	<u>\$ 295,843</u>	<u>\$ 188,610</u>

Indiana Community Business Credit Corporation

Notes to Financial Statements

4. Notes Payable

Notes payable consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Unsecured revolving credit notes with Member Banks. The interest rate is variable based on the Indiana Base Rate (5.25% and 4.00% at December 31, 2004 and 2003, respectively) and is payable semiannually. Upon written notice, a credit line may be terminated by either the Corporation or the Member Bank and would be due within three years after termination. Unused lines of credit were approximately \$21,031,000 and \$16,922,000 at December 31, 2004 and 2003, respectively.	\$ 4,685,524	\$ 4,685,524
Unsecured revolving demand credit note with a Member Bank. The interest rate is variable based on the Bank One prime rate (5.25% and 4.00% at December 31, 2004 and 2003, respectively) and is payable monthly. The unused portion of the line of credit was \$2,680,000 and \$2,060,000 at December 31, 2004 and 2003, respectively.	<u>320,000</u>	<u>940,000</u>
	<u>\$ 5,005,524</u>	<u>\$ 5,625,524</u>